MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BMB3024 – MONEY AND BANKING

(All sections / Groups)

22 OCTOBER 2016
14.30 pm – 16.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** printed pages of **TWO (2)** sections, **SECTION A** and **SECTION B**. Both sections consist of **TWO (2)** questions each respectively.
2. Marks are shown for each question.
3. Write all your answers in the answer booklet provided.
4. Answer **ALL** questions.

Answer ALL questions.

Section A: Case-study

Question One (25 marks)
Read the short passage below and answer the following questions.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref No : 12/05/09

Operational Flexibilities to the Locally-Incorporated Foreign Banking Institutions Operating in Malaysia

Bank Negara Malaysia today announces that the locally-incorporated foreign banking institutions (LIFBs) operating in Malaysia will be allowed to establish up to four additional branches within a period of one year with effect from 1 January 2006. This operational flexibility represents the first of a phased approach of **branching liberalisation**, in line with the broad strategies outlined in the Financial Sector Masterplan.

The objective is to evolve Malaysia's financial system into one that is able to best serve the nation. Towards this objective, our aspiration is for the financial sector to provide world class financial services in terms of product range, quality and pricing nationwide. Being an integral component of the financial sector, the LIFBs are expected to contribute towards achieving this objective.

The restructuring and reform initiatives that have been undertaken have now strengthened the capacity and capability of the domestic banking sector. This has resulted in stronger and more competitive domestic banking institutions that are better positioned to respond positively to increased competition in terms of offering a wider range of innovative products and continuously improving customer service quality. Today, the domestic banking institutions command a respectable market share, accounting for 78% of total loans, 68.3% of housing loans, 84.7% of SME loans and 78.3% of business loans.

The cornerstone of Malaysia's economic management is the policy of pursuing balanced growth in an environment of social stability. Domestic banking institutions with large presence in the non-urban areas, some as high as 20% of total branches, have succeeded in achieving sustainable performance while ensuring that rural areas have access to banking services. The LIFBs, on the other hand, are located mainly in major cities. A wider dispersion of bank branches across the country will further enhance the avenues for consumers to have access to banking services, including from the LIFBs. In this regard, LIFBs will be allowed to establish up to 4 new branches based on a predetermined ratio of 1(market centres):2(semi-urban):1(non-urban).

Source: http://www.bnm.gov.my/?ch=en_press&pg=en_press_all&ac=1155&lang=en

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Base on the passage above, answer the following questions.

(a) State **four (4)** objectives of the Central Bank of Malaysia. (8 marks)

(b) Discuss the reasons of branching liberalisation of banking institutions in Malaysia. (12 marks)

(c) Even though the Central Bank has allowed locally-incorporated foreign banking institutions to open four new branches, their presence in Malaysia is still relatively low, as compared to domestic banks. How do banks usually respond to branching restriction? (5 marks)

Question Two (25 marks)

Read the short passage below and answer the following questions.

The Economist

The economic impact of Brexit

Straws in the wind

Forget the financial markets. Evidence is mounting that the real economy is suffering from Brexit

16 July 2016

Before the referendum, economists were in near-unanimous agreement that a vote to leave would hit the economy. And as predicted, the past three weeks have been torrid. The pound has fallen by one-tenth against the dollar; the FTSE 250, an index of domestically focused firms, is down. Alongside the now-familiar turmoil in financial markets, there is growing evidence that the real economy is slowing.

It is not easy to assess the economic impact of Brexit, because official data are published with a long lag. The first official estimate of GDP growth in the third quarter will not come out until late October. But there is a smorgasbord of other indicators of economic activity—in particular, data "scraped" from the internet—which occur at a higher frequency than official data are published. None of the observations is robust on its own. But together, they hint at how the British economy is doing after Brexit.

It is not all doom. Consumer spending seems to be holding up. OpenTable, a restaurant-booking website, showed a drop in reservations during the referendum, as people made time to vote or watch the coverage. After the next weekend, however, reservations were back to normal.

Shoppers have not been too affected, either. Sales at John Lewis, a department store, which has published weekly figures to July 9th, are up on previous years. The number of people entering shops, a decent proxy for retail spending, has not much changed since the referendum, according to data from Footfall, a consultancy. Supermarkets are not aggressively discounting, finds mySupermarket, a price-comparison site. Tesco, Britain's biggest, had 23.7% of products on promotion on July 8th, down from 24.8% just before the referendum. Over half of voters plumped for Brexit, after all, so they should be happy shoppers. An economic slowdown does not immediately pinch people's pockets.

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Businesses are cutting investment. On Funding Circle, a peer-to-peer loans website for small firms, the volume of lending is about 10% lower so far in July than it was in the same month last year. Companies would put off big decisions on capital spending or recruitment, given the uncertainty about the future of the economy.

Data scraped from Zoopla, a property website, suggest that of about 6,000 London properties listed from June 24th to July 11th, roughly 1,000 have had their price cut since the referendum. A survey by the Royal Institution of Chartered Surveyors published on July 14th, which accounts for the post-referendum period, shows a sharp fall in inquiries from homebuyers.

What of the export boom resulting from the weak pound, as Brexiteers predict? There is some evidence that flight bookings into Britain have risen. British export competitiveness has not improved as much as the fall in sterling implies, because one-quarter of the value of British exports contains imports—which are getting pricier. Analysis by The Economist of data provided by PriceStats, a consultancy that scrapes prices from online retailers, suggests annualised inflation since the vote has been above the Bank of England's 2% target. In any case, research shows little evidence that currency depreciations lead to increased market share in exports, particularly for a country like Britain which competes mainly on "non-price" factors such as quality and customer service.

Now the slowdown is taking shape, the authorities must respond. Theresa May, the new prime minister, has made encouraging noises about a fiscal stimulus, though with the budget deficit already at about 4% of GDP she does not have much room to manoeuvre. On July 14th the Bank of England surprised markets by holding interest rates at 0.5%; most analysts had expected a cut. A future reduction cannot be far away: as the economy slows, it will soon need all the help it can get.

Source: http://www.economist.com/news/britain/21702225-forget-financial-markets-evidence-mounting-real-economy-suffering

Based on the passage above, answer the following questions.

(a) Discuss the negative economic impacts of Brexit (10 marks)

(b) Discuss **two (2)** causes of British pounds depreciating against USD. (4 marks)

(c) Graphically explain the current performance of British pound based on the demand for domestic assets. (6 marks)

(d) "If a Britain wants to keep its exchange rate from changing, it must give up some control over its money supply." Is this statement true, false, or uncertain? Explain your answer. (5 marks)

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Section B: Short Questions

Question One (25 marks)

(a) Explain how Keynes explain the Liquidity Preference Theory derive the real demand for money equation as $\frac{Y}{f(i,Y)}$. (12 marks)

(b) In Keynes's analysis of the speculative demand for money, what will happen to money demand if people suddenly decide that the normal level of the interest rate has increased? Why? (5 marks)

(c) According to the portfolio theories of money demand, what are the **four (4)** factors that determine money demand and how each factor can cause the demand for money to fall? (8 marks)

Question Two (25 marks)

(a) How does a deterioration in balance sheets of financial institutions and the simultaneous failures of these institutions cause a decline in economic activity? (6 marks)

(b) What causes bank panics to occur? (6 marks)

(c) Why might financial liberalisation and globalisation lead to financial crises in an emerging market economy like Malaysia? (7 marks)

(d) Why do currency crises make financial crises in emerging market economies even more severe? (6 marks)

End of Paper.